Tough Times 2013

Councils' responses to financial challenges from 2010/11 to 2013/14

November 2013

audit commission

Executive summary

This is the Audit Commission's third and final report examining the financial resilience of English councils. It is based on our latest analysis of financial data supplied by councils to government, and responses to a survey of the appointed auditors for all 353 single-tier, county and district councils.

Our research over the last three years has been set against the backdrop of a significant reduction in central government funding to councils as part of the government's overall deficit reduction programme. These funding reductions will continue beyond 2013/14, although their full extent is not yet known. Councils have also experienced real-terms reductions in other income, such as council tax, and face uncertainty from 2013/14 about the level of income from locally retained business rates.

Alongside reduced income, councils have been contending with rising demand for some services, especially social care. From 2015/16, councils will be expected to work in a more integrated way with local health partners to improve care services and achieve greater efficiency.

Our conclusion this year is that, in the face of financial challenges from 2010/11 to 2013/14, almost all councils have demonstrated a high degree of financial resilience. A small minority of councils, however, have found it harder to cope than others as funding levels have reduced. A few of these have been a source of concern to auditors in successive years.

With uncertainty about the future funding available to deliver services, councils cannot be sure what savings they will need to make. Auditors report that at least one in ten councils do not yet have plans for how they will address the expected gap between funding and spending in coming years. It is understandable, therefore, that auditors are less confident about the medium-term financial prospects of one third of councils.

Our research shows councils have already adopted a wide range of strategies in response to financial challenges. They have valuable learning to share from their savings initiatives to date. Where conventional strategies can no longer be relied on to deliver the savings needed, councils will need to innovate to develop new approaches to public service delivery that rely less on funding from government.

Councils must adapt in order to continue to provide services that meet their statutory obligations and the needs of their local communities with reduced levels of income. There will be ongoing risks for councils as they do so. As the Audit Commission is expected to close in March 2015, it will be for the government and others to find alternative ways to draw on the insights auditors can provide about the financial resilience of England's councils and remain vigilant for signs of financial stress.

Councils' spending in 2012/13

We examined councils' spending on non-education services in 2012/13 and how this differed from 2011/12.

- Councils spent £38.0 billion (net of fees, charges and other income) on services in 2012/13. More than half was used to fund social care services for adults and children.
- On average, single-tier and county councils (STCCs) spent 2.4 per cent less on services in 2012/13 than in 2011/12.
- District councils (DCs) spent 2.8 per cent less on average in 2012/13 than in 2011/12.
- During 2012/13, 63 per cent of councils increased reserves while 37 per cent reduced them.
- In aggregate, councils increased reserves by £0.9 billion in 2012/13 – a smaller increase than in 2011/12.

Financial stress in 2012/13

We asked auditors whether councils experienced significant difficulties, or took unplanned actions, in delivering the budgets they agreed for 2012/13.

- In the view of auditors, 89 per cent of councils experienced no significant difficulties in delivering the budget they agreed for 2012/13; but agreeing the budget and identifying how savings would be delivered was challenging for some councils.
- Auditors indicated that 17 per cent of STCCs and 6 per cent of DCs experienced significant difficulties in delivering their agreed budgets in 2012/13. The main difficulties were: overspending due to additional service demand; shortfalls in income; and not achieving planned savings.
- Three in ten councils (29 per cent) needed to take one or more unplanned actions during the year to deliver their budget.
  - Councils that took unplanned actions to deliver their budgets in 2011/12 were more likely to do so again in 2012/13.
- The unplanned actions most commonly taken in 2012/13 were:
  - reductions in service spend;
  - re-profiling/re-evaluation of the savings from major savings initiatives; and
  - reductions in staffing levels or restrictions on recruitment.
- Based on auditors' responses, three in ten councils (29 per cent) exhibited some form of financial stress in 2012/13; experiencing significant difficulties, needing to take unplanned actions, or both.
  - One in five councils (18 per cent) exhibited financial stress in both 2011/12 and 2012/13, including 25 per cent of metropolitan district councils and 24 per cent of unitary authorities.
  - 4 per cent of councils exhibited high financial stress in both years.

Councils' income in 2013/14

We looked at what income councils expected for 2013/14 when they were setting their budgets, compared with earlier years.

- From 2010/11 to 2013/14, government funding to councils reduced by £6 billion (19.6 per cent) in real terms.
  - Metropolitan district councils saw the largest aggregate reduction – 22.5 per cent.
  - County councils' saw the smallest reduction over this period – 16.4 per cent.
- Funding reductions have been proportionally greater for councils that are more dependent on government income to fund spending. Reductions in funding to STCCs are equal to 12.1 per cent of their 2010/11 spending, on average. For DCs, reductions are equal to 10.5 per cent of their 2010/11 spending, on average.
- One in five councils (20 per cent of STCCs and 23 per cent of DCs) have seen reductions in funding that were greater than 15 per cent of their planned revenue spending in 2010/11.
- Councils serving the most-deprived areas have seen the largest reductions in funding relative to spending since 2010/11.
  - In almost half the councils (49 per cent) serving the most-deprived 20 per cent of areas, the reduction in funding from 2010/11 to 2013/14 exceeded 15 per cent of their spending in 2010/11.
  - Of the councils serving the least-deprived 20 per cent of areas, fewer than one in ten (8 per cent) saw funding reductions as large.
- Council tax income fell by £0.3 billion (1.7 per cent) in real terms from 2010/11 to 2013/14, after council tax freeze grant is taken into account.
  - The 63 per cent of councils that froze or reduced council tax in each of the last three years saw the largest overall reduction in council tax income from 2010/11 to 2013/14 – 2.2 per cent in real terms.
  - The 8 per cent of councils that only froze or reduced council tax in 2011/12 saw a real-terms net increase in council tax income of 1.6 per cent from 2010/11 to 2013/14.

Councils' spending plans for 2013/14

We looked at what councils planned to spend on non-education services in 2013/14 compared with earlier years.

- From 2010/11 to 2013/14, service spending by STCCs reduced by 9.4 per cent on average. Service spending by DCs reduced by 16.6 per cent on average.
- Spending on planning and development services by STCCs reduced by 37.6 per cent on average from 2010/11 to 2013/14. The average reduction for DCs was 19.3 per cent.
- Spending by STCCs on cultural services reduced by 24.4 per cent on average. For DCs the average reduction was 19.4 per cent.
- Children's social care spending has increased by 1.2 per cent on average since 2010/11.

- The contribution of reductions in spending on adult social care to total spending reductions has increased over time. This service accounts for 52 per cent of the total spending reduction from 2012/13 to 2013/14.
- There have also been large increases in the share of total spending reductions that come from:
  - cultural and related services – 31 per cent of the total service spending reduction for all councils in 2013/14; and
  - environment and regulatory services – 22 per cent of the total 2013/14 spending reduction.
- As a result of councils' spending decisions, social care services in STCCs and central services in DCs account for a larger share of their total service spending in 2013/14 than they did in 2010/11.

Councils' responses to financial challenges since 2010/11

We asked auditors what strategies councils had adopted since 2010/11 in response to financial challenges, and which of these had made the greatest contribution to achieving their financial objectives.

- STCCs adopted a wider range of strategies in response to their financial challenges from 2010/11 to 2013/14 than DCs.
- The three strategies most widely adopted by councils were:
  - reducing overall staff numbers (96 per cent of STCCs and 86 per cent of DCs);
  - delivering some services more efficiently (91 per cent of STCCs and 81 per cent of DCs); and
  - reducing or restructuring the senior management team (79 per cent of STCCs and 69 per cent of DCs).
- The three strategies that made the greatest financial contribution were:
  - reducing overall staff numbers (for 76 per cent of STCCs that did so and 61 per cent of DCs);
  - delivering some services more efficiently (60 per cent of STCCs and 59 per cent of DCs); and
  - entering into new service delivery arrangements with other public bodies (25 per cent of STCCs and 52 per cent of DCs).
- Our financial analysis shows that from 2010/11 to 2012/13, reduced spending on staff accounted for 48 per cent of councils' total spending reductions.

Financial resilience in 2013/14 and beyond

We asked auditors how well placed councils were to deliver their budgets in 2013/14 and their medium-term financial plans.

- Auditors reported that nine out of ten councils were well placed to deliver their budget in 2013/14; a small increase on last year.
- Auditors were unsure about budget delivery in the remaining one in ten councils, mainly due to: concerns about councils' ability to deliver savings of the scale required by funding reductions; rising cost pressures; weaknesses in financial controls; and uncertain prospects for income.
- About two-thirds of councils (64 per cent) were well placed, in the view of auditors, to deliver their medium-term financial plans. But auditors had

concerns about the medium-term financial prospects of the other third of councils (36 per cent). Auditors were more likely to be concerned about the future financial prospects for:

  - unitary authorities (47 per cent of auditors had concerns);
  - London boroughs (45 per cent); and
  - metropolitan district councils (42 per cent).

- Councils where auditors were concerned about the delivery of medium-term financial plans had seen larger average reductions in government funding from 2010/11 to 2013/14 than those which auditors thought were well placed to deliver in the medium term.
- Based on auditors' responses, we consider two thirds of councils (63 per cent) to present a low financial risk. Three in ten (28 per cent) present a future financial risk. Nearly one in ten (8 per cent) present a current and ongoing financial risk.
  - At least two in five London boroughs, metropolitan districts and unitary authorities are in the ongoing or future risk categories.
  - Metropolitan district councils present the highest level of ongoing risk in 2013 with 14 per cent in this category.
- Councils that present an ongoing or future financial risk in 2013 were more likely to have experienced high in-year financial stress in 2012/13.

Conclusions

110 In the face of financial challenges from 2010/11 to 2013/14, almost all councils have demonstrated a high degree of financial resilience. Auditors report that nine out of ten councils delivered their budgets in 2011/12 and 2012/13 without experiencing significant financial difficulties. Seven out of ten councils delivered their budgets in those years without needing to take unplanned actions. The prospects for delivering the budget in 2013/14 also appear good for about nine out of ten councils.

111 Our research also shows that funding reductions have not fallen equally. A small minority of councils have found it harder to cope than others, with one in ten experiencing significant difficulties in delivering the budgets they set in 2011/12 and 2012/13 and three in ten needing to take unplanned actions in those years to balance the books. One fifth of councils overall and a quarter of metropolitan and unitary authorities exhibited financial stress in both 2011/12 and 2012/13. Auditors have concerns about the ability of one in ten councils to deliver their budget in 2013/14. A few of these have been a source of concern to auditors in successive years.

112 In our first report on councils' financial resilience in 2011 we noted that councils were 'at the start of a difficult and uncertain period for their finances'. Our analysis this year shows councils' funding from government reduced by 19.6 per cent in real terms from 2010/11 to 2013/14 and council tax fell by 1.7 per cent. Central funding to councils will reduce further in 2014/15 and 2015/16 as part of the government's ongoing strategy to reduce the UK's budget deficit. Policies that aim to reduce or freeze council tax will continue in these years. There is uncertainty for councils about funding from government beyond that, and about the income they can expect from retained business rates in the future as the UK economy recovers from a period of low growth.

113 With uncertainty about the future funding available to deliver services, councils cannot be sure what savings they will need to make. Auditors report that at least one in ten councils do not yet have plans for how they will address the expected gap between funding and spending in coming years. It is understandable, therefore, that auditors are less confident about the medium-term financial prospects of one third of councils.

114 Our research shows councils have already adopted a wide range of strategies in response to financial challenges, although the long-term effect of these on councils' financial resilience or their ability to meet the needs of local communities is unknown. Councils, nevertheless, have valuable learning to share about how to secure the maximum benefit from their savings initiatives to date.

115 For about one in five councils, the available options to reduce spending in the future are becoming more limited. One in twenty auditors told us that councils are finding savings harder to identify, and harder to deliver with fewer resources. Where conventional strategies can no longer be relied on to deliver the savings needed, councils will need to innovate to develop new approaches to public service delivery that rely less on funding from government.

116 Councils must adapt in order to continue to provide services that meet their statutory obligations and the needs of their local communities with reduced levels of income. There will be ongoing risks for councils as they do so. As the Audit Commission is expected to close in March 2015, it will be for the government and others to find alternative ways to draw on the insights that auditors can provide about the financial resilience of England's councils and to remain vigilant for signs of financial stress.